

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

ADJUSTMENT OF RATES OF GENERAL)
TELEPHONE COMPANY OF KENTUCKY) CASE NO. 8295

AND

THE TARIFF FILING OF GENERAL)
TELEPHONE COMPANY OF KENTUCKY)
REGROUPING THE NICHOLASVILLE) CASE NO. 8416
AND WILMORE EXCHANGES)

O R D E R

On January 20, 1982, the Commission issued its Order in the above-styled matters, wherein General Telephone Company of Kentucky ("General") was authorized to implement the remaining-life method of depreciation accounting for its various plant accounts. On February 9, 1982, General requested a rehearing in this matter, stating that the Commission had committed "material errors of fact", and asked for reconsideration on all accounts where the proposed depreciation rates were not allowed. General specifically mentioned Sub-Account C203 (Automatic Switching) and Account C604 (Buried Cable). Additionally, General requested approval for the use of equal life group ("ELG") for all of its plant accounts because the Federal Communications Commission ("FCC") approved the use of ELG for General Telephone Companies of Florida, Michigan, Indiana and Ohio, which are all subject to FCC jurisdiction.

Discussion

General's first argument in Sub-Account C203 is that the Commission, upon rehearing in Case No. 8045, stated that General is on schedule in replacement of Central Office Equipment ("COE") and in fact is experiencing shorter lives on existing COE, while in this case, using the same information, arrived at a different conclusion.

The Commission has reviewed the record in Case No. 8045. The original order, dated May 15, 1981, stated on page 12:

General's rationale for the change in average annual service life was the much earlier retirement dates planned for the four Lexington tributary offices and two others. From the record in this case the Commission finds that the planned changes to the offices are speculative and may not occur within the time frame presented....

The refusal to allow a change in depreciation rate in Sub-Account 203 was therefore specifically based on information related to only six offices, rather than the entire plant included in the Sub Account, which is at issue in this proceeding. Additionally, in its request for rehearing in Case No. 8045, dated June 3, 1981, General stated on page 1, Item 1-d, as a reason for rehearing:

The disallowance of General's adjustment for contractually committed additions to telephone plant.

The Commission allowed rehearing on this, as well as other items. While General did attempt to discuss additions and retirements for the entire Sub Account at the rehearing, the rehearing order of September 4, 1981, allowed the changes requested by General for the six offices noted above. This was not a

general depreciation case, and the Commission does not consider these specific changes as representative of a reasonable determination of the depreciation rate for the entire Sub Account. In any event, the Commission has not previously approved, nor disapproved, the depreciation rates which General has used.

General's second argument is that the Commission erred in concluding that the remaining-life was too short in Sub-Account 203 because "historical experience has shown that electro-mechanical office equipment has continued to be used long after 'technology' has produced state-of-the-art equipment which was to replace the older offices." General's third argument was similarly stated, maintaining that the Commission erred in its decision to extend remaining-life on the basis that older equipment, even after replacement, has been used to expand other offices. General's argument in both cases is that it has already taken these factors into account in its studies.

In fact, nowhere in the order of January 20, 1982, does the Commission state that General did not take these factors into account. Remaining-life estimates must be made on a combination of historical experience and professional judgment of future expectations. It is the Commission's opinion that General has weighted the element of future expectations too high in relation to the element of historical experience. The order specifically stated that when electronic offices were introduced in the 1960's, and digital offices in the 1970's, it was expected that they would rapidly replace electromechanical offices. This has

not been borne out by historical experience. The actual remaining-life allowed by the Commission is a reasonable blend of the two elements of historical experience and professional judgment of future expectations.

General's fourth argument is that the remaining-life rates for COE allowed for South Central Bell ("Bell") in Case No. 8150 are greater than those allowed for General. General has used this one plant item only for its comparison. In fact, the record shows that General's composite rate is 6.87 percent, compared to 5.33 percent for Bell. If the 5 percent rate approved for station connections-other, which was not included in Bell's rates is excluded, General's composite rate is 6.90 percent, 29.46 percent higher than Bell's composite rate. On numerous accounts, General has a shorter remaining-life than does Bell. For example, on Buildings (Account 212 or C121), General has a 28-year remaining service life, while Bell was given a 37-year remaining life. On this account, Bell has a depreciation rate of 2.3 percent, compared to General's 2.48 percent. All of this discussion, including General's argument on this point, proves only that each company's depreciation rates must be considered individually, and comparisons are not necessarily valid without considering all of the similarities and differences associated with the comparison.

General's fifth argument is that by increasing the life of electromechanical offices, the Commission in effect is telling it to delay replacement of these offices with electronic

equipment. The Commission does not accept this as a necessary consequence of its order. However, if the allowed rate causes General to manage the transition from electromechanical to digital equipment (and beyond) better, it is the Commission's opinion that this would not necessarily be an undesirable consequence of such action.

The order of January 20, 1982, specifically pointed to General's proposed replacement of #1 and #2-EAX switches, which it had installed up to the last part of the 1970's. General stated at the time of installation that this was state-of-the-art equipment which could be expected to provide many years of modern, relatively trouble-free service. Now General states, both in its testimony and in its application for rehearing, that this equipment has become virtually obsolete with the development of digital technology. General has proposed to replace the EAX switch in Ashland with a digital switch about 1986, resulting in a total service life for that switch of 8 years.

The Commission questions management's decision in this respect, since testimony at the hearing indicated that even digital technology could be obsolete by the end of this decade with the advent of "still-frame" technology. More prudent management of these assets would appear reasonable, given the dollars involved in each change-out of COE.

General's final argument in Sub-Account C203 is basically a recitation of other arguments, stating that the Commission relied quite heavily on "historical experience" in developing

its depreciation rates, and further that the allowed rates would result in delays in equipment conversion. This argument has already been addressed and will not be further discussed here.

The second part of General's application states that the Commission erred in its determination that Account C604 (Buried Cable) has a remaining service life of 20 years. General argued that the Commission considered only the physical life of the cable and ignored changes in the state-of-the-art technology which will result in a remaining service life less than that found by the Commission. General is obviously referring to developments in cable and optical fibre technology. The Commission is also aware of these developments, but again states that General has relied too heavily on its future expectations with little or no proof in the record to substantiate those expectations.

It is useful to note also that the 20-year remaining-life was based on an estimated 25- to 27-year average life, as stated in the order. General has objected to this, but in its application has filed a copy of an FCC order titled FCC 82-53, Docket 30798, dated January 28, 1982, in support of its petition. In that order the Commission notes with interest that the FCC has approved the following average service lives for the buried cable account for those utilities:

<u>Company</u>	<u>Account</u>	<u>Average Service Life</u>	<u>Net Salvage</u>
Gen Tel of Florida	242.3 Buried Cable	34 Years	-5%
Gen Tel of Indiana	242.3 Buried Cable	25 Years	-6%
Gen Tel of Michigan	242.3 Buried Cable	30 Years	-8%
Gen Tel of Ohio	242.3 Buried Cable	32 Years	-5%

Although comparisons are not necessarily valid without the data which produced them, it would still appear that the rate granted General is at least reasonable.

The Commission notes that General is correct that the order was in error in stating that Account C604 is a "cradle to grave" account. However, this does not change the Commission's judgment as to remaining service life or salvage in this plant account.

The final portion of General's application concerns the implementation of ELG. General requests immediate implementation for all plant accounts. The Commission's order in this matter, dated January 20, 1982, delayed the implementation of ELG procedures because the Commission "desires to be consistent with the ELG implementation methods of the FCC...." On January 28, 1982, the FCC ordered ELG implementation for certain classes of outside plant for four General Telephone and Electronics ("GTE") companies under its jurisdiction. Implementation was ordered for the following accounts:

<u>Account</u> <u>FCC/Company</u>		<u>Class of Plant</u>
241	C601	Pole Lines
242.1	C602	Aerial Cable
242.2	C603	Underground Cable
242.3	C604	Buried Cable
244	C607	Underground Conduit

The Commission notes that the FCC did not approve the use of ELG rates for the Aerial Wire Account (C606) classification of outside plant.

After careful consideration of this matter, the Commission has decided to continue to defer the implementation of ELG for General until such time as the Commission has allowed its implementation for Bell. As of this date the FCC has not resolved all of the questions concerning ELG implementation for Bell, and the Commission is of the opinion that these questions should be resolved before implementation of ELG is allowed either to General or to Bell. In any event, this Commission will not allow ELG rates for any plant account which has not been approved by the FCC.

Findings and Order

The Commission, after consideration of General's petition for rehearing and being advised, is of the opinion and finds that:

1) General's petition for rehearing contains no information that has not heretofore been considered by the Commission and no sufficient reason to require the Commission to modify or vacate its order entered January 20, 1982; and

2) General's petition for implementation of ELG contains new information concerning FCC approval of ELG for four GTE companies under its jurisdiction; however, approval of ELG for General should continue to be deferred pending resolution by the FCC of unresolved questions.

IT IS THEREFORE ORDERED that General's petition for rehearing in this matter be and it hereby is denied.

Done at Frankfort, Kentucky, this 1st day of March, 1982.

PUBLIC SERVICE COMMISSION

Mark M. Voth
Chairman

Katharine Randall
Vice Chairman

Don Carver
Commissioner

ATTEST:

Secretary